

AR26



SULLIVAN
MINING
GROUP
LTD.

1976

FOR RELEASE ON RECEIPT

AR26

Thursday, February 5, 1976

from:

SULLIVAN MINING GROUP LTD./EAST SULLIVAN MINES LIMITED,
2500, 500 Place d'Armes,
Montreal, Quebec.

SULLIVAN COMPANIES

ANNOUNCE 1975 REPORTS

East Sullivan Mines Limited reports net consolidated loss of \$416,761 (15¢ per share) for the year ended August 31, 1975. Earnings for the previous year restated on a consolidated basis were \$1,897,017 (68¢ per share).

Sullivan Mining Group Ltd. reports net consolidated loss of \$935,297 (14¢ per share) for the year ended August 31, 1975. Earnings for the previous year restated on a consolidated basis were \$4,411,103 (68¢ per share).

Past practice of the two companies of combining their annual reports in one presentation is being discontinued this year. Separate consolidated statements have been prepared for each company to be mailed to registered shareholders prior to the annual meetings of the respective companies, February 27, 1976.

Shareholders will find details of operations similar in both statements with the results of Sullivan Mining Group Ltd. included in those of East Sullivan Mines Limited (which controls Sullivan Mining Group Ltd.).

...more

On a consolidated basis, net production value during the past fiscal year was \$12.1 million (\$13.9 million in 1974), while cash flow was \$4.1 million (\$8.1 million in 1974).

According to J. Jacques Beauchemin, president of both companies, increased costs and reduced net production returns affected overall results. The average price obtained for copper was \$0.59 in 1975 compared to \$0.93 in 1974.

Depreciation and amortization charges were also higher, --\$4.5 million compared to \$3.0 million in 1974.

On a consolidated basis, the production value during the
past fiscal year was \$15.1 million (\$15.9 million in 1974), while
cash flow was \$4.1 million (\$2.5 million in 1974).
According to J. Jackson, Chairman, President of both
companies, integrated assets and related net production revenue
affected overall results. The average price obtained for copper
was \$0.25 in 1975 compared to \$0.21 in 1974.
Depreciation and amortization charges were also higher,
-\$2.5 million compared to \$1.5 million in 1974.

SULLIVAN MINING GROUP LTD.

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To the Shareholders of SULLIVAN MINING GROUP LTD.

Your directors are pleased to submit herewith the consolidated financial statements of your Company for the year ended August 31, 1976.

Financial Results

The last financial year resulted in considerable losses well above those of the previous year. Several factors contributed to the substantial operating losses, such as the depressed price of base metals, the increased costs of labour and supplies. For these reasons your Board of Directors recently decided to close the Cupra-D'Estrie mines in the Eastern Townships. Expenditures related to the closing of these divisions will cause still more losses to be recorded in the current fiscal year, just started. Your subsidiary, Nigadoo River Mines Limited, continues to operate and it is hoped that a cash flow will be generated during the current fiscal year.

The net loss for the year from operations at your divisions and at Nigadoo River Mines Limited, amounted to \$7,638,452, including a non recurring write-off of \$2,559,375 compared with a net loss of \$935,297 during the previous year, (\$1.18 per share effectively in circulation, versus \$0.14 reported last year). The above special write-off is related to amortization of pre-milling and deferred development expenses occasioned by the deletion of part of the previously reported ore reserves at Nigadoo River Mines Limited, which are no longer considered economical.

During the past year, the working capital of your Company was reduced from \$13,050,059 to \$9,376,246. This reduction is a result of the operating

losses sustained at the divisions and at the subsidiary and of expenditures related to development and metallurgical research programmes carried out during the year at Brunswick Tin Mines Limited.

Notwithstanding the losses sustained and ensuing negative cash flow, your management believed it imperative to continue the programmes underway at your two future producers, the lithium division and Brunswick Tin Mines Limited.

Lithium Division

We are happy to report that the chemical engineers of the research center of the Department of Natural Resources of Quebec have continued testing on a pilot plant scale the production of lithium carbonate by a new continuous process using sodium carbonate. These tests are now complete and the results are very positive. Your Company has also retained the services of a consulting chemical engineer from the firm Hatch, Ouellette & Associés. Their report confirms the technical value of the process, which will permit substantial savings in labour and energy when compared with other lithium carbonate fabricating processes.

In the light of these results, several important companies have shown their interest in this project, and your management has begun negotiations with some of them.

Brunswick Tin Mines Limited

The continued efforts to value the property brought this year's costs to \$1.4 millions, which was a main factor affecting the reduction in the working capital of your Company. Metallurgical tests were run on ore drawn from the Fire Tower Zone by metallurgists of the Canmet Division of the Department of Energy, Mines and Resources, in Ottawa, as well as by our own metallurgists. Three different routes of treatment of the ore have seriously been tested, that is: gravity, flotation and gravity-flotation. Each of these processes gave good results with different performances for grade of concentrates and/or recovery of metal content. Final choice of the most desirable process will be made after consultation with contemplated associates. Important companies have shown their interest in the project for quite some time. This should hopefully lead to serious financial negotiations with the object of bringing this considerable deposit to the production stage.

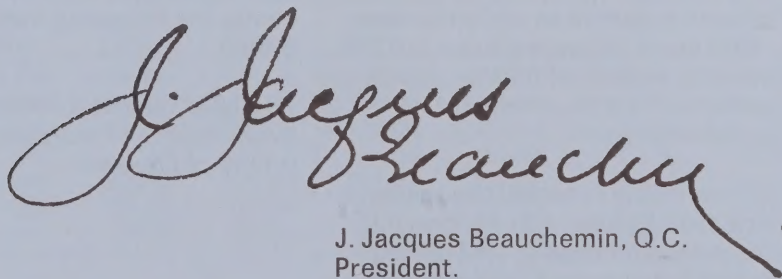
Conclusions

Whereas total assets and equity per share have decreased, it should be noted that the value of your Company lies mainly on your lithium division and the subsidiary Brunswick Tin Mines Limited. These two deposits are considerable and should sustain long lasting operations.

We remain confident in the future of your Company in the hope of a favourable climate for the future of the natural resources industry in the province of Quebec and in New Brunswick.

In closing, in the name of the Board of Directors, I wish to thank the personnel of your Company for its loyalty and sustained efforts during the year.

On behalf of the Board of Directors,

A handwritten signature in dark ink, reading "J. Jacques Beauchemin". The signature is fluid and cursive, with the first name "J." and last name "Beauchemin" clearly legible.

J. Jacques Beauchemin, Q.C.
President.

Montreal, December 23, 1976

REVIEW OF 1976 MINING OPERATIONS

Cupra – D'Estrie Mines

Mine production reached 228,713 tons grading 2.54% copper, 2.32% zinc, 0.51% lead, 0.014 ounce of gold and 1.116 ounces of silver. Thus a reduction of 2.4% in tonnage milled and 16.6% in metal production resulted from this year's operation when compared to 1975. The sudden drop in metal production was caused by lower zinc and lead grades of 18.6% and 7.3% respectively in the mill feed; copper grade however was slightly improved.

As at September 1, 1976, ore reserves had been established at 763,000 tons grading 2.74% copper, 1.52% zinc, 0.47% lead, 0.015 ounce of gold and 1.10 ounces of silver. Further to the decision taken on November 1, 1976 to close down the mines these reserves will therefore not be mined out.

Nigadoo River Mines Limited

During the year, 237,015 tons of ore were treated in the mill at an average grade of 0.20% copper, 2.75% lead, 2.80% zinc and 3.14 ounces of silver.

Total ore reserves as of September 1, 1976 were estimated to be 318,828 tons with a grade of 0.16% copper, 3.24% lead, 2.92% zinc and 3.44 ounces of silver.

The previously reported ore reserves were 856,946 tons. After taking into account the tonnage milled during the last fiscal year, a difference of

some 300,000 tons was deleted from the reserves for the following reasons:

because of the oxidation of the ore in the upper levels, a much larger than expected surface pillar had to be left in place, and

in order to avoid too much dilution, a greater number of pillars in a few stopes are no longer recoverable, and

the grade of some ore blocks was lower than indicated by diamond drilling rendering them uneconomical.

The employees relations have been satisfactory and a new two-year collective agreement was ratified during the year.

Brunswick Tin Mines Limited

FIRE TOWER ZONE

As mentioned in last year's report, a 2100 foot decline had been sunk and 2760 feet of drifting were driven into two higher grade segments. From these underground workings, 48,409 feet of fan diamond drilling (with rings of holes spaced 100 feet apart) have delineated in these two segments the following tonnage and grade:

7,100,000 tons at 0.39% of tungsten oxide, 0.22% of molybdenite and 0.11% of bismuth.

To this tonnage should be added 19,000,000 tons, indicated by previous surface diamond drilling, with a grade of 0.21% of tungsten oxide, 0.14% of molybdenite and 0.068% of bismuth.

NORTH ZONE

Nothing has been done in this zone during the last fiscal year.

Surface diamond drilling performed in previous years had inferred the following tonnages and grade:

12,500,000 tons at 0.241% tungsten oxide, 0.08% molybdenite and 0.08% bismuth,

and

2,600,000 tons at 0.42% tin, 0.077% tungsten oxide, 0.05% molybdenite and 0.06% bismuth.

Metals Production

	CUPRA Division	Subsidiary companies		Total 1975-76		Total 1974-75	
		D'Estrie	Nigadoo	Pounds *Ounces	Value \$	Pounds *Ounces	Value \$
Copper	2,475,378	8,200,931	460,034	11,136,343	6,866,372	12,273,631	7,251,256
Lead	238,866	887,674	10,922,060	12,048,600	2,499,677	9,934,068	1,978,904
Zinc	2,764,917	5,781,839	10,850,723	19,397,479	6,970,424	20,506,205	8,061,450
Gold	394	1,387	—	1,781	178,066 *	2,213	364,149
Silver	48,219	160,286	576,143 *	784,648	3,209,432 *	814,500	3,934,817
Cadmium	18,263	35,280	134,234	187,777	508,521	204,035	537,996
Bismuth	1,001	2,614	20,970	24,585	184,508	28,942	214,029
					<u>\$20,417,000</u>		<u>\$22,342,601</u>

SULLIVAN MINING GROUP LTD. and its subsidiaries

(Incorporated under the Quebec Companies Act)

CONSOLIDATED BALANCE SHEET

August 31, 1976

STATEMENT 1

ASSETS

	1976	1975
CURRENT ASSETS		
Cash and term deposits	\$ 3,305,520	\$ 5,602,586
Accounts receivable	53,804	73,645
Marketable securities at cost (quoted market value : 1976 - \$650,831 — 1975 - \$651,876)	706,418	694,705
Recoverable income taxes	111,406	219,100
Inventories (notes 1 and 2)	5,847,127	7,943,238
Prepaid expenses (note 8)	234,149	186,295
	<u>10,258,424</u>	<u>14,719,569</u>
LONG-TERM INVESTMENTS (notes 1 and 3)	<u>864,613</u>	<u>1,569,488</u>
FIXED ASSETS (notes 1 and 6)		
Land at cost	111,175	111,175
Buildings, machinery and equipment at cost less accumulated depreciation (1976 - \$9,978,748 — 1975 - \$9,163,060)	6,118,420	6,664,795
	<u>6,229,595</u>	<u>6,775,970</u>
DEFERRED EXPENDITURES (notes 1, 4, 6, 8 and 11)	<u>21,048,547</u>	<u>24,203,204</u>
	<u>\$38,401,179</u>	<u>\$47,268,231</u>

LIABILITIES

CURRENT LIABILITIES		
Bank loan	\$ —	\$ 876,572
Accounts payable and accrued expenses	673,616	548,509
Wages and salaries payable	207,478	223,429
Quebec Mining duties	1,084	21,000
	<u>882,178</u>	<u>1,669,510</u>
LOANS AND ADVANCES FROM PARENT COMPANY	—	440,000
MINORITY INTEREST	<u>1,421,507</u>	<u>1,437,998</u>

SHAREHOLDERS' EQUITY

Capital stock (note 5)		
Authorized: 20,000,000 shares without par value		
Issued : 8,400,000 shares	11,242,600	11,242,600
Capital surplus	4,677,177	4,677,177
Retained earnings - statement 3	20,261,588	27,884,817
	<u>36,181,365</u>	<u>43,804,594</u>
Shares of Sullivan Mining Group Ltd. held by subsidiaries (note 5)	(83,871)	(83,871)
	<u>36,097,494</u>	<u>43,720,723</u>
	<u>\$38,401,179</u>	<u>\$47,268,231</u>

On behalf of the Board of Directors:

J. JACQUES BEAUCHEMIN, Director

J. GUY GAUVREAU, Director

The annexed notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

Year ended August 31, 1976

STATEMENT 2

	1976	1975
VALUE OF PRODUCTION	\$20,417,000	\$22,342,601
Less: Cost of realization and freight	10,171,367	10,244,239
	<u>10,245,633</u>	<u>12,098,362</u>
COST OF OPERATIONS		
Mining and milling	10,340,583	8,364,490
Administrative and general expenses	536,489	462,170
Depreciation of fixed assets and amortization of pre-milling and deferred development	4,530,268	4,492,772
	<u>15,407,340</u>	<u>13,319,432</u>
Additional amortization of pre-milling and deferred development expenditures (note 1)	2,559,375	—
	<u>17,966,715</u>	<u>13,319,432</u>
OPERATING LOSS	<u>7,721,082</u>	<u>1,221,070</u>
OTHER EXPENSES		
Net expenses of closed and non operating mines	88,401	116,649
Amortization of outside exploration expenditures	177,226	418,384
Amortization of cost of issue of debentures of a subsidiary	1,333	1,333
Loss on sale and disposal of fixed assets	10,936	136,045
	<u>277,896</u>	<u>672,411</u>
	<u>7,998,978</u>	<u>1,893,481</u>
OTHER INCOME		
Custom milling	16,017	134,383
Interest and dividends	416,260	793,305
Profit on sales of investments	1,428	49,786
	<u>433,705</u>	<u>977,474</u>
LOSS BEFORE MINING DUTIES AND MINORITY INTEREST	7,565,273	916,007
MINING DUTIES	87,052	21,000
LOSS BEFORE MINORITY INTEREST	<u>7,652,325</u>	<u>937,007</u>
MINORITY INTEREST		
Share in loss of subsidiary	13,873	1,710
NET LOSS FOR THE YEAR	<u>\$ 7,638,452</u>	<u>\$ 935,297</u>
NET LOSS PER SHARE (notes 1 and 5)	<u>\$ 1.18</u>	<u>\$ 0.14</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended August 31, 1976

STATEMENT 3

	1976	1975
RETAINED EARNINGS AT BEGINNING OF YEAR	\$27,884,817	\$32,870,310
Adjustments resulting from the inclusion of subsidiaries which were not previously included in consolidated statements and now included because of principles of consolidation enunciated by CICA in March 1975	—	(3,506,999)
ADJUSTED RETAINED EARNINGS	27,884,817	29,363,311
ADD		
Prior years' income tax and other adjustments	44,668	126,729
	<u>27,929,485</u>	<u>29,490,040</u>
DEDUCT		
Net effect of accounting for investment in parent company on the equity method	29,445	(166,934)
Dividends paid	—	836,860
Net loss for the year	<u>7,638,452</u>	<u>935,297</u>
	<u>7,667,897</u>	<u>1,605,223</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$20,261,588</u>	<u>\$27,884,817</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended August 31, 1976

STATEMENT 4

	1976	1975
WORKING CAPITAL AT BEGINNING OF YEAR	\$13,050,059	\$15,313,653
SOURCE OF FUNDS		
Proceeds from disposal of long-term investments		
Reimbursements of advances	690,000	—
Sale of shares and rights	1,672	—
Instalments on mortgages receivable	14,631	4,242
Proceeds from disposal of fixed assets	37,305	792,073
Loans and advances from parent company	—	440,000
Prior years' income tax adjustments	24,456	126,729
Net effect of dividends received from parent company resulting from accounting for investment in parent company by the equity method	—	182,896
	<u>768,064</u>	<u>1,545,940</u>
APPLICATION OF FUNDS		
Net loss for the year	7,638,452	935,297
Deduct: Items requiring no outlay of cash		
Depreciation of fixed assets and amortization of pre-milling and deferred development expenditures	4,530,268	4,492,772
Amortization of cost of issue of debentures	1,333	1,333
Amortization of outside exploration expenditures	—	418,384
Additional amortization of pre-milling and deferred mine development expenditures (note 1)	2,559,375	—
Loss on disposal of fixed assets	10,936	136,045
Profit on disposal of long-term investments	(1,428)	—
	<u>537,968</u>	<u>(4,113,237)</u>
	—	255,020
Additions to long-term investments	368,989	1,550,284
Additions to fixed assets	440,000	—
Reimbursement of loans and advances received from parent company	—	124,280
Outside exploration expenditures	3,081,047	5,154,617
Pre-milling and deferred mine development expenditures	13,873	1,710
Minority interest's share in loss of a subsidiary	—	836,860
Dividends paid	<u>4,441,877</u>	<u>3,809,534</u>
DECREASE IN WORKING CAPITAL	<u>3,673,813</u>	<u>2,263,594</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 9,376,246</u>	<u>\$13,050,059</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 1976

STATEMENT 5

Note 1 — Accounting Policies

A. Basis of Consolidation

The accompanying financial statements include, on a consolidated basis, the accounts of Sullivan Mining Group Ltd. (the Company) and all of its subsidiaries including those that are at the exploration stage (Notes 4 and 1F (iii)).

Sullivan's interest in its parent company, East Sullivan Mines Limited is accounted for on the equity method basis due to the significant influence that it exercises on the parent company.

Certain subsidiary companies own shares in the Company. The carrying value of such shares has been deducted from the Company's shareholders equity. Similarly the Company's earnings per share has been calculated based on the number of its shares outstanding after reduction for such intercompany holdings (note 5).

B. Valuation of Inventories

Mine products are valued at estimated realizable value and mining and milling supplies are valued at the lower of cost determined on an average cost basis and possible amount of realization.

C. Valuation of other Investments

- (i) Shares acquired as a result of development work are carried at nominal value.
- (ii) Other investments are carried at cost.

D. Valuation of Fixed Assets

- (i) Land is valued at cost.
- (ii) Buildings, machinery and equipment are shown at cost, fixed assets of Québec Lithium, a division of the Company is carried at undepreciated capital cost amounting to \$771,684 which is the value that management estimates to be recoverable.
- (iii) The residences situated in the Eastern Townships are shown at undepreciated capital cost amounting to \$85,689 that management estimates to be recoverable.

E. Deferred Expenses

- (i) Preproduction expenditures and deferred mine development expenditures amount to \$6,553,136 (1975 — \$11,334,159) for the producing mines and will only be recovered out of the proceeds of the ore bodies under production less costs to produce and sell provided market conditions are favourable; the same reserve applies to the expenditures of the mines at the exploration stage which amount to \$12,964,008 (1975 — \$11,330,595) the recovery of which is also subject to the bringing of these ore bodies to commercial production.
- (ii) The value at which the mining properties, the mining rights and concessions are recorded in the books does not purport to represent their present or future value (Note 4).

F. Depreciation and Amortization

- (i) Depreciation on buildings, machinery and equipment is provided at rates varying between 5% to 15% per annum on the straight-line method.
- (ii) Amortization of preproduction and deferred development expenditures is calculated on rates based on the total tons of estimated ore reserves applied to the tons milled during the year. An additional amount of amortization amounting to \$2,559,375 is charged to operations in view of a downward revision of the estimated ore reserves by 301,103 tons.
- (iii) Depreciation is not calculated on buildings, machinery and equipment of subsidiaries at the exploration stage. The cost of these fixed assets amounts to \$727,006 (\$674,723 in 1975).

Note 2 — Inventories

These consist of:

Mining and milling supplies

	1976	1975
Valued at cost	\$ 1,647,085	\$ 2,028,649
Valued at possible amount of realization	153,622	153,622

	1,800,707	2,182,271
Concentrates at smelters and awaiting shipment	4,046,420	5,760,967

	<u>\$ 5,847,127</u>	<u>\$ 7,943,238</u>
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Note 3 — Long-term Investments

The cost of the investment by the Company in the shares of East Sullivan Mines Limited, its parent company, amount to \$1,467,056 and is accounted for on the equity method (note 1). Accounting for this investment on the equity method has resulted in the cost of the investment being charged to retained earnings and to affect retained earnings by the earnings less dividends (note 5).

	1976	1975
Other shares and debentures at cost	\$ 765,339	\$ 765,583
Loans and other indebtedness	99,274	803,905
	<u>\$ 864,613</u>	<u>\$ 1,569,488</u>

These investments with a book value of \$864,613 (1975 — \$1,569,488) have no quoted market value. This value is not representative of the realizable value.

Note 4 — Other Assets at Cost (notes 1 and 11)	1976	1975
Deferred expenditures		
Operating mines		
Cupra-D'Estrle mines	\$ 3,885,824	\$ 5,518,213
Nigadoo River Mines Limited	2,667,312	5,815,946
	<u>6,553,136</u>	<u>11,334,159</u>
Mines at the exploration stage	<u>12,964,008</u>	<u>11,330,595</u>
	<u>19,517,144</u>	<u>22,664,754</u>
Mining properties, claims and concessions (note 1E)		
Operating mines		
Cupra-D'Estrle mines	196,051	196,051
Nigadoo River Mines Limited	2	2
Mines at the exploration stage and others	<u>1,335,350</u>	<u>1,341,064</u>
	<u>1,531,403</u>	<u>1,537,117</u>
Others	—	1,333
	<u>\$21,048,547</u>	<u>\$24,203,204</u>

Note 5 — Shareholders' Equity

The issued capital stock of the company is summarized below:

	Authorized	Issued	
		August 31, 1976	August 31, 1975
Class "A" shares	10,000,000	8,315,540	8,336,080
Class "B" shares	10,000,000	84,460	63,920
	<u>20,000,000</u>	<u>8,400,000</u>	<u>8,400,000</u>
Less: the company's interest in its shares held by subsidiaries		<u>31,207</u>	<u>31,207</u>
		<u>8,368,793</u>	<u>8,368,793</u>
Less: shares held in East Sullivan Mines Limited (note 3)		<u>1,888,471</u>	<u>1,888,471</u>
		<u>6,480,322</u>	<u>6,480,322</u>
During the year the following dividends were declared:			
Class "A" — \$0.10 share		\$ —	\$ 821,589
Class "B" — \$0.085 a share plus 15% on undistributed income		—	18,411
Total		—	840,000
Less: Company's share of dividends paid to subsidiaries		—	3,140
Net charge to retained earnings		<u>\$ —</u>	<u>\$ 836,860</u>

Class "A" and Class "B" shares are voting, convertible into one another on a share for share basis and rank equally with respect to dividends and in all other respects. The only distinction between the two classes is that the directors may specify that cash dividends on class B shares be paid first out of 1971 tax-paid undistributed surplus on hand (as those expressions are defined in the Income Tax Act of Canada), with the result that Class B dividends so paid will be less than the Class A dividends by the amount of tax paid thereon.

Note 6 — Income Taxes

- The net earnings of the Company and its subsidiaries is not taxable because they have claimed, for tax purposes, capital cost allowance, amortization of preproduction expenditures, deferred development and outside exploration expenditures in excess of amounts charged to earnings.
- Furthermore, the Company and its subsidiaries had at August 31, 1976 further amounts available to reduce future taxable incomes; the figures for 1975 have been modified.

	1976	1975
Undepreciated capital cost	\$ 7,657,235	\$ 7,359,115
Outside exploration expenditures	4,361,760	4,333,256
Preproduction expenditures	4,938,286	5,431,487
Losses for income tax purposes	1,768,908	720,140
(iii) The subsidiaries, at the exploration stage, have, as a Group, an amount of \$8,648,386 (1975 — \$6,299,903) available to reduce their possible future taxable incomes or the Company's which might be earned from mining operations or from investments; the figures for 1975 have been modified.		

Note 7 — Pending Legal Procedure

Legal proceedings have been instituted against the Company whereby the plaintiffs are claiming 4/5 of the 340,000 escrowed shares of Sullipek Mines Inc. to be issued and allotted to Sullivan Mining Group Ltd. and alternatively failing delivery of the claimed shares, the plaintiffs have claimed the sum of \$1,000,000 of damages against Sullivan Mining Group Ltd.

This litigation has arisen from an option granted by the Company to Terra Nova Explorations Ltd. on certain claims situated in the Gaspé area of the Province of Québec. These proceedings have been contested and in the opinion of the company's counsel they are ill-founded in facts and in law.

Note 8 — Chester Mines Limited

- (i) The company, due to the economic and certain other conditions, ceased, temporarily, the development of the Chester project as at August 31, 1975.
- (ii) The amount of prepaid expenses include a sum of \$115,902 on deposit with the Province of New Brunswick held "In Trust", by that Province, as security for the observance and performance by Chester of its obligations to carry out and complete all work and measures deemed necessary by the Province to ensure that there will be no contamination of soil and water as determined by the Province and to its satisfaction.

Note 9 — Contractual Obligations

According to the terms of a lease for office space, the Company is committed as at August 31, 1976 for an amount of \$157,247. The amount charged to expenses for the year ended August 31, 1976 amounted to \$58,967 and the minimum amount payable for 1977 is \$58,967.

Note 10 — Remuneration of Directors and Officers

The aggregate remuneration received by directors and officers of the Company amounts to \$608,630 for the year (\$471,365 for 1975).

Note 11 — Events Subsequent to Year End

- (i) Subsequent to the year end, on October 15, 1976, an action for \$162,585 in damages and interests was instituted against the Company. These damages appear to be the result of an accident which occurred on October 19, 1975.

Although the insurance company appeared in court through their counsellor, they are not admitting any contractual obligation to Sullivan Mining Group Ltd. in regard to their coverage of third party liability. The proceedings are at the preliminary stage.

- (ii) The Board of directors at a meeting held on November 1, 1976 decided:

- a) Not to pursue the proceedings in which the Company was claiming for its subsidiary, D'estrie Mining Company Ltd. (No Personal Liability), a tax exempt period.
- b) To cease mining operations of the Cupra-D'Estrie Mines located in the Eastern Townships, because of a very severe set-back in the price of copper and increased operating difficulties.
- c) The cost of closing down the two mines is estimated at \$1,000,000 not taking into account the extraordinary loss which will result from termination of operations.

The extraordinary loss, once the mining operations are terminated will be made up of the unrealizable amount of fixed assets and the unamortized amount of deferred expenditures.

The book value of these assets as at August 31, 1976 are as follows:

Fixed assets less accumulated depreciation	\$ 2,149,725
Deferred expenditures (note 4)	3,885,824
Mining properties, claims and concessions (note 4)	196,051
	<u>\$ 6,231,600</u>

- (iii) At a meeting of the Board of directors held on October 29, 1976, it was decided to wind-up Weedon Mining Company Ltd. (No Personal Liability) a wholly-owned subsidiary by transferring all the assets and all the liabilities to the parent company.

AUDITORS' REPORT

To the Shareholders
Sullivan Mining Group Ltd.

We have examined the consolidated balance sheet of Sullivan Mining Group Ltd. and its subsidiaries as at August 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the recovery of deferred expenditures and, the realization of investments and advances as referred to in notes 1, 3 and 4 and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements present fairly the financial position of the companies as at August 31, 1976, the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MAHEU, NOISEUX & ASSOCIÉS
Chartered Accountants

Montreal, November 10, 1976

Officers

Marc H. Dhavernas, *Honorary Chairman of the Board*
J. Jacques Beauchemin, Q.C., *President and Chairman of the Board*
Lucien C. Béliveau, Eng., *Executive Vice-President*
Réal J. Lafleur, *Secretary-Treasurer*
Roger Plasse, Eng., *General Manager*
Fernand Cordeau, C.A., *Assistant Secretary-Treasurer*
Gilles Carrière, Eng., *Exploration Manager*
R. B. Gosselin, Eng., *Manager of Cupra and d'Estrie Mines*
R. E. Boylan, Geologist, *Manager of Nigadoo Mine*

Directors

François Bastien, C.A.
Claude Beauchemin, Attorney
Gendron Beauchemin, Eng.*
J. Jacques Beauchemin, Q.C.*
Claude Beaudoin
Lucien C. Béliveau, Eng.*
Wilbrod Bhérer, Q.C.
Brigadier General J. Guy Gauvreau, B. Com., D.S.O., E.D., C.D.*
Réal Lafleur
Alexandre J. Montminy

* *Executive Committee*

Registrar and Transfer Agents

Guaranty Trust Company of Canada, Montreal - Toronto
Bankers Trust Company, New York

Shares Listed

Montreal Stock Exchange / Toronto Stock Exchange

Auditors

Maheu, Noiseux & Associés, Montreal

Head Office

Suite 2500 - B.C.N. Building, 500 Place d'Armes, Montreal, Quebec H2Y 2W6

